

## Message Text

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ACDA-05 TRSE-00 SAJ-01 AGR-05 CEA-01 COME-00 EB-07

FRB-03 INT-05 LAB-04 AID-05 CIEP-01 STR-04 TAR-01

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FM AMEMBASSY VALLETTA

TO SECSTATE WASHDC 6474

INFO AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TRIPOLI

USMISSION NATO

DIA WASHDC

C O N F I D E N T I A L SECTION 1 OF 2 VALLETTA 1179

E.O. 11652: GDS

TAGS: PINT, PFOR, MT

SUBJECT: MALTA - QUARTERLY POLITICAL/ECONOMIC REPORT

REF: VALLETTA 0771

1. SUMMARY. MALTA IS NOW ENTERING ITS PRE-ELECTION PERIOD, AND THE CHANCES OF MAJOR STREET VIOLENCE DURING THE CAMPAIGN ARE INCREASINGLY EVIDENT. A LARGE NATIONALIST KICK-OFF RALLY ON SEPTEMBER 21 WAS DISRUPTED BY LABOR TOUGHS AND AN OBVIOUSLY LESS-THAN-NATURAL POLICE FORCE. ECONOMIC PROBLEMS, ESPECIALLY UNEMPLOYMENT AND INFLATION, REMAIN MAJOR DIFFICULTIES FOR MINTOFF'S LABOR GOVERNMENT. MINTOFF CARRIED OFF A MAJOR FOREIGN POLICY COUP IN JULY BY STONEWALLING HIS WAY TO CSCE ACCEPTANCE OF HIS IDEAS  
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ON MEDITERRANEAN SECURITY, AN ACHIEVEMENT WHICH WAS

HAILED AS A MAJOR POLITICAL "VICTORY" IN MALTA. BILATERAL U.S.-MALTESE RELATIONS WERE RELATIVELY QUIET DURING THE QUARTER, WITH THE GOM FINALLY BEGINNING TO IMPLEMENT THE LONG-PENDING FIVE MILLION DOLLAR USG SUPPORTING ASSISTANCE LOAN.

2. POLITICAL DEVELOPMENTS. THE MALTESE POLITICAL CAMPAIGN HAS OFFICIALLY OPENED, AND WITH A VENGEANCE. THE OPPOSITION NATIONALIST PARTY ANNOUNCED THAT THE ANNIVERSARY OF INDEPENDENCE FROM THE UNITED KINGDOM (SEPTEMBER 21) WOULD MARK THE BEGINNING OF ITS CAMPAIGN TO UNSEAT MINTOFF AND THE LABORITES. THE NATIONALISTS DID HAVE A LARGE AND SUCCESSFUL OPEN-AIR RALLY IN VALLETTA ON SEPTEMBER 20, BUT WHEN THEY ATTEMPTED TO HOLD A PARADE THE FOLLOWING DAY, THEY WERE BLOCKED BY SEVERAL HUNDRED LABOR TOUGHS.

WHEN THE POLICE INTERVIEWED TO "SEPARAT" THE RIVAL GROUPS, A THREE-WAY MELEE RESULTED, DURING WHICH STONES, BOTTLES AND METAL OBJECTS WERE HURLED BACK AND FORTH, AND SOME THIRTY PERSONS INJURED.

AS HAS BEEN THE CASE AT MANY NATIONALIST POLITICAL MEETINGS OVER THE PAST YEAR, THE ACTIVITIES OF THE POLICE WERE HIGHLY SUSPECT. THE POLICE APPEARED TO BE MORE INTERESTED IN CLUBBING NATIONALIST SUPPORTERS AND BRINGING THE NATIONALIST PARADE TO A HALT, THAN THEY WERE IN CONTROLLING THE ILLEGALLY-ASSEMBLED LABOR ROUGHNECKS. (THE NATIONALISTS HAD OBTAINED FORMAL ADVANCE POLICE PERMISSION FOR THE PARADE.)

NONE OF THESE DEVELOPMENTS CAME AS ANY SURPRISE. THE PRO-LABOR, ANTI-NATIONALIST ORIENTATION OF THE POLICE FORCE HAS BEEN NOTICEABLY INCREASING UNDER MINTOFF (WHO IS MINISTER OF POLICE, AS WELL AS PRIME MINISTER). POLICE PROMOTIONS, ASSIGNMENTS, AND EVEN EXAMINATIONS FOR NEW RECRUITS ARE TAKING ON A STRONGER AND STRONGER LABOR PARTY COLORATION. AND IN CONTRAST WITH THE STREET FIGHTING WHICH OFTEN DISRUPTS NATIONALIST MEETINGS, LABOR

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DEMONSTRATIONS ARE SELDOM DISTURBED. FOR EXAMPLE, A LABOR COUNTER-RALLY IN VALLETTA HELD A WEEK AFTER THE ABORTED NATIONALIST CELEBRATIONS PASSED WITHOUT INCIDENT, EXCEPT FOR FURTHER SCATTERED ACTS OF VANDALISM BY LABOR SUPPORTERS AGAINST NATIONALIST NEWSPAPER OFFICES AND CLUBHOUSES.

WITH PERHAPS AS LONG AS A YEAR TO GO BEFORE

THE ELECTIONS, MALTA MAY WELL BE IN FOR AN EXTREMELY BITTER AND PHYSICALLY VIOLENT POLITICAL CAMPAIGN. THE NATIONALISTS CLAIM THEY WILL STAND THEIR GROUND, IF NECESSARY, HOPING THAT ENOUGH MIDDLE-OF-THE-ROAD VOTERS WILL BE TURNED OFF BY THE STREET FIGHTS TO VOTE MINTOFF OUT OF OFFICE.

AS A PARTING SUMMERTIME GESTURE AGAINST THE NATIONALIST OPPOSITION AND ITS PRESEMED ALLY, THE CATHOLIC CHURCH, MINTOFF JAMMED A CIVIL MARRIAGE BILL THROUGH PARLIAMENT JUST BEFORE THE AUGUST RECESS. HIGHLY CONTROVERSIAL, THE MARRIAGE BILL REFLECTED MINTOFF'S CONTINUED BITTERNESS AGAINST PREVIOUS CHURCH INTERFERENCE IN MALTESE POLITICAL AFFAIRS TO THE DETRIMENT OF THE LABOR PARTY. AS USUAL, MINOTFF HAD HIS WAY IN PARLIAMENT, AND THE NATIONALISTS WERE COMPLETELY FRUSTRATED IN THEIR ATTEMPTS TO BLUNT THE EFFECT OF THE BILL THROUGH AMENDMENTS.

PARLIAMENT WILL RESUME IN MID-OCTOBER. A KEY QUESTION BEFORE THE HOUSE WILL BE A REVISED ELECTORAL BILL WHICH, AMONG OTHER THINGS, IS EXPECTED TO ESTABLISH NEW ELECTORAL DISTRICTS AND INCREASE THE NUMBER OF PARLIAMENTARIANS (FROM 55 TO 65) IN PREPARATION FOR THE COMING ELECTION. IT IS BOUND TO BE A VERY CONTROVERSIAL QUESTION WHICH, FOR A CHANGE, MIGHT PRODUCE DIVISIONS WITHIN MINTOFF'S SOLID PHALANX OF LABOR PARLIAMENTARIANS AS THE JOCKEYING FOR POSITION IN THE ELECTORAL RACE GAINS MOMENTUM.

3. ECONOMIC DEVELOPMENTS. IN AUGUST, PRIME MINISTER MINTOFF DELIVERED A TELEVISION AND RADIO BROADCAST TO THE NATION ON MALTESE ECONOMIC CONDITIONS. WHILE  
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ADMITTING THAT THE INTERNATIONAL RECESSION AND INFLATIONARY PRESSURES WERE CONTINUING TO AFFECT MALTA'S ECONOMY, MINTOFF CLAIMED THAT THE SITUATION ACTUALLY IS BETTER HERE THAN IN MANY OTHER COUNTRIES. HE ANNOUNCED REDUCTIONS IN CERTAIN UTILITY RATES MADE POSSIBLE BY A NEW AGREEMENT WITH QADHAFI, WHEREBY MALTA IS (SUPPOSEDLY) OBTAINING "ALL" OF ITS OIL FROM LIBYA AT "CHEAP PRICES." MINTOFF ALSO CLAIMED THAT THE ENDEMIC UNEMPLOYMENT SITUATION IN MALTA WAS IMPROVING, BUT HE NEGLEITED TO MENTION THAT THE MAIN REASON FOR THE APPARENT IMPROVEMENT IS THE FACT THAT SEVERAL THOUSAND MEN ARE ENGAAGED IN MAKE-WORK PROJECTS CONDUCTED BY TWO GOM-SPONSORED CCC/WPA-STYLE JOB CORPS.

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INFO OCT-01 NEA-10 ISO-00 CIAE-00 PM-04 H-02 INR-07 L-03

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FM AMEMBASSY VALLETTA

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INFO AMEMBASSY LONDON

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C O N F I D E N T I A L SECTION 2 OF 2 VALLETTA 1179

DESPITE MINTOFF'S SELF-PROCLAIMED "CLOSE FRIENDSHIP" WITH QADHAFI, HE GRUDGINGLY ADMITTED TO PARLIAMENT IN AUGUST THAT NO PROGRESS HAS YET BEEN MADE IN FINDING A SOLUTION TO THE MEDIAN LINE DISPUTE BETWEEN MALTA AND LIBYA. AS A RESULT, THE HIGHLY PUBLICIZED MALTESE CONCESSIONS TO SEVERAL INTERNATIONAL PETROLEUM COMPANIES HAVE NOT YET PRODUCED ANY DRILLING OPERATIONS IN MALTESE WATERS.

MINTOFF ANNOUNCED TWO NEW LOAN AGREEMENTS DURING THE QUARTER, ONE FOR THRITY-TWO MILLION DEUTSCHE MARKS (US DOLS THIRTEEN MILLION) WITH WEST GERMANY, AND A SECOND FOR US FOLS THREE MILLION (BUT ALSO PAYABLE IN DEUTSCHE MARKS) FROM LIBYA. THE FRG LOAN, ON VERY SOFT TERMS, HAD BEEN UNDER NEGOTIATION FOR THREE YEARS.

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THE TERMS OF THE LIBYAN LOAN WERE SURPRISINGLY TOUGH, BUT BOTH LOANS WERE PRAISED BY LABOR SUPPORTERS AS FURTHER EXAMPLES OF MINTOFF'S ABILITY TO EXTRACT GOODIES FROM OTHER GOVERNMENTS.

THE GOM ANNOUNCED DURING THE QUARTER THAT THE OUTBREAK OF HOOF AND MOUTH DISEASE IN MALTA HAD BEEN BROUGHT COMPLETELY UNDER CONTROL.

MALTESE ELIGIBILITY FOR GENERALIZED TRADE PREFERENCES WAS OF CONTINUING INTEREST DURING THE QUARTER. CERTAIN CASES INVOLVING AMERICAN FIRMS WHICH MIGHT AFFECT MALTESE ELIGIBILITY WERE CAREFULLY REVIEWED, WITH THE FOLLOWING RESULTS: (A) AN OUT-OF-COURT SETTLEMENT OF THE LONG-STANDING CONTRACT CANCELLATION DISPUTE BETWEEN WESTINGHOUSE AND THE GOM WAS REACHED ON TERMS ACCEPTABLE TO WESTINGHOUSE; (B) A POSSIBLE SCHEME TO COMPENSATE ESSO FOR ITS REMAINING ASSETS IN MALTA WAS PROPOSED BY THE COMPANY TO THE GOM, AND THIS WAS STILL UNDER NEGOTIATION AS THE QUARTER ENDED; (C) GOM ACTION TO TAKE OVER THE BANKRUPT PHOENIX TEXTILES WENT BEFORE THE COURTS IN TWO PARALLEL ACTIONS, ONE BY THE GOM TO FORECLOSE AGAINST THE COMPANY, AND THE OTHER BY THE STOCKHOLDERS TO VOLUNTARILY LIQUIDATE THE FORM. THE EMBASSY ADVISED THE GOM THAT DEVELOPMENTS RELATING TO ESSO AND PHOENIX WERE BEING REVIEWED IN WASHINGTON WITHIN THE CONTEXT OF U.S. TRADE PREFERENCES LEGISLATION.

4. FOREIGN RELATIONS. THE FOREIGN POLICY HIGHLIGHT OF THE QUARTER FOR MINTOFF AND HIS LABOR SUPPORTERS WAS MALTA'S GREAT "VICTORY" AT THE CSCE CONFERENCE. AFTER STONEWALLING HIS WAY TO FORCED CSCE ACCEPTANCE OF MALTESE AMENDMENTS TO THE CSCE MEDITERRANEAN DECLARATION, MINTOFF BASKED (BUT DID NOT GLOAT) IN THE LOCAL GLORY OF HIS "GREAT DIPLOMATIC ACHIEVEMENT". THE DOMESTIC EFFECT, HOWEVER, CLEARLY WAS AN ENHANCEMENT OF MINTOFF'S POLITICAL REPUTATION AS A DYNAMIC LEADER WHO KNOWS WHAT HE WANTS AND WILL NOT TAKE "NO" FOR AN ANSWER. THE OPOPOSITION NATIONALIST PARTY WAS REDUCED TO MUTTERING ABOUT HIS TACTICS, WHILE GRUDGLINGLY ADMIRING HIS GALL.

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MINTOFF WAS PREVENTED BY ILLNESS FROM PERSONALLY GOING TO HELSINKI FOR THE CSCE SIGNING CEREMONY, HOWEVER.

IN WHAT HAS BECOME A FAMILIAR PATTERN, THERE WERE THREE COMMUNIST DELEGATIONS IN MALTA DURING THE QUARTER. A SOVIET MISSION ARRIVED IN JULY TO NEGOTIATE A "COMMERCIAL TREATY" WITH MALTA, BUT WENT AWAY EMPTY-HANDED, PERHAPS DUE TO OPOSITION FROM MINTOFF'S RESIDENT FRIENDS, THE CHINESE. MORE SUCCESSFUL WERE TWO GROUPS FROM NORTH KOREA WHO, BY CONTRAST, RECEIVED A PUBLIC WELCOME FROM THE PRC EMBASSY IN MALTA. THE FIRST CAME IN JULY TO WORK ON A JOINT FISHING VENTURE, AND THE SECOND IN SEPTEMBER TO SIGN AN AGREEMENT TO SET UP A PENCIL FACTORY AND A METAL PRODUCTS WORKSHOP IN MALTA.

THE GOM CONTINUES TO EXPAND ITS NON-RESIDENT DIPLOMATIC RELATIONS. DURING THIS QUARTER, LEBANON AND SAUDI ARABIA WERE ADDED TO THE LIST OF COUNTRIES WITH WHICH MALTA HAS SUCH TIES. AS THE QUARTER ENDED, MINTOFF DECIDED TO APPOINT A RESIDENT MALTESE AMBASSADOR TO LIBYA. (THE POST HAS BEEN VACANT SINCE MINTOFF BECAME PRIME MINISTER). THE AMBASSADOR IN TRIPOLI ALSO WILL BE ACCREDITED TO THE OTHER "ARAB STATES" WITH WHICH MALTA HAS OFFICIAL RELATIONS.

5. BILATERAL RELATIONS. OFFICIAL U.S./MALTESE RELATIONS REMAINED RELATIVELY QUIET DURING THIS QUARTER.

AN EXCHANGE OF NOTES TERMINATED THE U.S./MALTSE COTTON TEXTILE AGREEMENT EFFECTIVE SEPTEMBER 22, AND REPLACED IT WITH A NEW CONSULTATIVE ARRANGEMENT.

THE GOM HAS UNDER STUDY THE REVISED USG DRAFT OF THE PROPOSED TREATY ON DOUBLE TAXATION. THE MALTESE HAVE SIGNED SUCH TREATIES WITH A NUMBER OF OTHER COUNTRIES DURING THE PAST YEAR, AND WOULD LIKE TO REACH AGREEMENT WITH THE U.S. AS WELL ON THIS SUBJECT.

AN OFFICIAL GOM REQUEST FOR A NEW PEACE CORPS VETERINARIAN TO REPLACE THE ONE PREVIOUSLY ASSIGNED TO MALTA HAS BEEN APPROVED BY WASHINGTON. THE MINISTRY OF  
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AGRICULTURE HAS REQUESTED THE EARLIEST POSSIBLE ARRIVAL OF THE REPLACEMENT VETERINARIAN.

THE GOM FINALLY HAS BEGUN TO IMPLEMENT THE FIVE MILLION DOLLAR USG SUPPORTING ASSISTANCE LOAN. SOME TWO MILLION DOLLARS WORTH OF CRANES AND CARGO HANDLING EQUIPMENT WERE ORDERED UNDER THE LOAN DURING THE QUARTER. THE EMBASSY IS WORKING CLOSELY WITH THE GOM TO COMPLETE THE UTILIZATION OF THE REMAINING FUNDS PRIOR TO THE DECEMBER 15 EXPIRATION DATE FOR COMMITMENTS

UNDER THE LOAN AGREEMENT. SMITH

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## Message Attributes

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